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No. ——— OFFICE OF THE CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1997

SHELL OIL COMPANY,
Petitioner,

v.

STUDIENGESELLSCHAFT KOHLE M.B.H.,
Respondent.

Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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PETITION FOR WRIT OF CERTIORARI

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QUESTION PRESENTED

Where a patent licensee challenges the validity of the licensed patent as authorized by *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), and where the Court has found the relevant patent claims invalid, is that invalidity a complete defense to all royalty damages or may the licensor still seek damages for breach of contract for past royalties due on processes allegedly covered by such claims from the date of the alleged breach until the date that the licensee first challenged the validity of such claims?

LIST OF PARTIES AND RULE 29.6 STATEMENT

The parties to the proceeding in the United States Court of Appeals for the Federal Circuit were petitioner Shell Oil Company and respondent Studiengesellschaft Kohle M.B.H. For purposes of S. Ct. R. 29.6, Shell Oil Company states that its parent companies or nonwholly-owned subsidiaries are as follows: (1) Shell Transport and Trading Company PLC and (2) Royal Dutch Petroleum Company.

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PETITION FOR WRIT OF CERTIORARI

Shell Oil Company ("Shell") petitions that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Federal Circuit in this case with respect to that court's resolution of the certified legal question raised in Shell's cross-appeal No. 96-1200.

PREVIOUS OPINIONS IN THE CASE

The Federal Circuit's opinion is reported at *Studiengesellschaft Kohle M.B.H. v. Shell Oil Co.*, 112 F.3d 1561 (Fed. Cir. 1997), and is found at Petitioner's Appendix ("App.") 1a-15a. The district court's order granting summary judgment of invalidity of claims 1-6 and 14 of U.S. Patent No. 4,125,698 ("the '698 patent"), dismissing the infringement claims of Studiengesellschaft Kohle m.b.H. ("SGK") as moot, and ordering that trial proceed on SGK's breach of contract claim based on its license of the '698 patent to Shell is found at App. 16a-27a. The district court's order denying Shell's motion for reconsideration and denying SGK's motion for final judgment is at App. 28a-30a.

The district court's final judgment under Fed. R. Civ. P. 54(b) on the patent invalidity and infringement issues is found at App. 31a-32a. On the same day, the district court issued an order certifying the following question of law for interlocutory appeal under 28 U.S.C. § 1292(b):

> Where the Court has found the relevant patent claims invalid, may the Licensor recover damages for breach of contract for past royalties due on processes allegedly covered by such claims, from the date of the alleged breach until the date that the Licensee first challenged the validity of such claims?

App. 33a. The Federal Circuit's unpublished order granting Shell's petition for permission to appeal the certified question and granting SGK's motion for consolidation of the parties' appeals is found at App. 35a-38a. The ques-

tion presented by this petition seeks review of the Federal Circuit's resolution of the certified question to permit a licensor to use contract law to seek past royalties after the licensed patent is held invalid.

JURISDICTION

The decision of the Federal Circuit issued on May 5, 1997. App. 1a. The court of appeals denied SGK's timely combined petition for rehearing and suggestion for rehearing *in banc* in an order dated June 27, 1997. App. 39. A motion by Shell seeking a stay of the mandate pending disposition of this petition was later denied by the court of appeals.

The jurisdiction of the district court was invoked under 28 U.S.C. § 1338(a). The jurisdiction of the court of appeals was invoked under 28 U.S.C. § 1292(a)(1) and (c)(1) with respect to the certified legal issue and under 28 U.S.C. § 1295(a)(1) with respect to the patent invalidity and infringement issues. This Court has jurisdiction to entertain the present petition under 28 U.S.C. § 1254(1).

STATUTORY PROVISION INVOLVED

This petition raises an important issue of law relating to competing policies under federal patent law and state contract law, as identified in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), with respect to a patent licensee's liability for past royalties under a patent license after the licensee successfully invalidates the licensed patent during litigation with the licensor.

In the nearly 30 years since *Lear*, a number of federal courts have deviated from its express teachings by creating or accepting a rule of law that the invalidity of a licensed patent only allows a licensee to avoid liability for unpaid royalties that accrue after the licensee gives notice to the licensor that the licensed patent is believed to be invalid. Because Shell seeks a writ of certiorari to

review the Federal Circuit's decision in this case to adopt that rule as its precedent, there is no statutory provision directly applicable to this petition.

STATEMENT OF THE CASE

A. *The Parties' Patent License Dispute*

The '698 patent is part of a family of patents filed by Karl Ziegler and various co-inventors (collectively "Ziegler") and relates to the polymerization of olefins, such as ethylene and propylene, to produce plastics. Plaintiff-respondent SGK is the licensing arm of the Max-Planck Institute for Coal Research, a German research and educational organization, to which the Ziegler patents were assigned.

In 1974, SGK and Shell entered into a license agreement whereby Shell was licensed to polymerize propylene under various U.S. patents owned by SGK in exchange for a running royalty on sales of the resulting polypropylene. App. 50a-58a. One of the licensed patents was U.S. Patent No. 3,113,115 ("the '115 patent"), which claimed a catalyst useful for polymerizing olefins, including propylene. In 1978, the '698 patent issued, claiming a polymerization process using the same polymerization catalyst set forth in the '115 patent. While Shell was licensed to practice the process claimed in the '698 patent under the agreement, issuance of the '698 patent meant that Shell's royalty obligations to SGK would not end with the expiration of the '115 patent, but would extend for an additional 15 years.

In 1979, Shell renegotiated its license with SGK, modifying the terms of the 1974 agreement to receive a paid-up license to produce 450 million pounds of polypropylene per year, and to pay a 1.0% running royalty on any sales over that amount. App. 59a-61a. In 1987, in settlement of a dispute over royalties owed under the existing license agreement, the parties again modified the license, raising Shell's running royalty rate to 1.5%. App. 62a-64a. As

amended in 1987, the parties' license agreement related only to the production of polypropylene pursuant to the claims of the '698 patent. App. 62a.

Under the 1987 agreement, Shell did not owe royalties on polypropylene produced by a process not covered by claim 1, nor would such polypropylene count against Shell's paid-up capacity. The agreement also provided that Shell was to provide SGK with annual reports as to "the amount of Polypropylene produced which [Shell] considers as falling outside of the license and . . . provide SGK, in confidence, with sufficient information to allow SGK to independently evaluate whether or not said production is, in fact, outside of the scope of the license." App. 63a. Later, Shell assigned one third of its paid-up capacity to another company as allowed by the license. *Id.* at ¶ 5.

Subsequently, Shell began producing polypropylene in 1987 using a new process, primarily at a plant in Seadrift, Texas ("the Seadrift process"), while still operating its older polypropylene process at a different plant. Shell has consistently insisted that the Seadrift process is not covered by any claims of the '698 patent. Accordingly, Shell never paid any royalties on polypropylene produced by the Seadrift process, but did continue to pay all royalties that were due on its older process when its use of the older process exceeded its paid-up capacity.

When SGK inquired about the production levels on Shell's royalty reports, Shell responded by providing SGK with sufficient information to show that the Seadrift process was not covered by any claims of the '698 patent. SGK, however, refused to agree that the Seadrift process was not covered by any '698 patent claims and demanded payment for past royalties allegedly due for the Seadrift process. Ultimately, because Shell refused to pay royalties for its Seadrift process, SGK purported to terminate the license agreement, and filed the present action in 1993.

SGK's complaint asserted that Shell breached the license agreement by not paying all royalties owed for its produc-

tion of polypropylene and that Shell's breach enabled SGK to treat such polypropylene production as patent infringement. App. 40a-41a. SGK sought damages for breach of contract (for the period between 1987 and the termination of the license) and for infringement of the '698 patent (for the period after the license termination). *Id.* Shell counterclaimed for a declaratory judgment that the license agreement had not been breached and was not properly terminated, and that the '698 patent was invalid, unenforceable, and not infringed by Shell's polypropylene operations. App. 44a-49a.

B. *The District Court Proceedings*

The '698 patent emerged from a series of patent applications prosecuted in the U.S. Patent Office over a period of 23 years. The application that resulted in the '698 patent was filed on October 29, 1958. Because that application combined the distinct disclosures of two other prior Ziegler applications separately filed in January and June of 1955, the combined application for the '698 patent was a continuation-in-part application with respect to each of the individual parent applications. *See* App. 2a-3a (citing *Studiengesellschaft Kohle m.b.H. v. Northern Petrochemical Co.*, 784 F.2d 351, 352 (Fed. Cir.), *cert. dismissed*, 478 U.S. 1028 (1986)).

As SGK eventually conceded, claims 1-6 and 14 of the '698 patent cover a process disclosed in Belgian Patent No. 538,782 ("the Belgian patent"), patented on December 6, 1955, more than one year before the filing of the application resulting in the '698 patent. *See* App. 3a. Under 35 U.S.C. § 102(b), the Belgian patent is thus a statutory bar that invalidates those claims unless they were entitled to the earlier filing date of one of the parent applications under 35 U.S.C. § 120.

After discovery closed, Shell filed motions for summary judgment that claims 1-6 and 14 of the '698 patent were invalid under 35 U.S.C. § 102(b) in view of the

Belgian patent, and that the '698 patent was not infringed. In opposing Shell's motions, SGK asserted additional claims 7, 9-12, and 15 of the '698 patent against different processes used by Shell to make polybutylene, but made no mention of any other '698 patent claims.

When the parties convened for a scheduled pretrial conference, the district court distributed a "Tentative Order" granting Shell's motion for summary judgment of invalidity and dismissing SGK's claims for patent infringement and breach of contract. In objecting to the tentative order, SGK raised eleventh hour arguments not previously presented. In particular, SGK argued that, even if the district court held claims 1-6 and 14 of the '698 patent invalid, the court could not dismiss SGK's breach of contract cause of action, because invalidity was a defense only for the period after the licensee informs the licensor that it believes the patent is invalid.[1]

On August 31, 1995, the district court entered an order granting Shell's motion for summary judgment of invalidity, holding that neither of the Ziegler parent applications alone described the invention of the '698 claims at issue and that section 120 did not permit the combination of two earlier disclosures as a means to acquire an earlier filing date. App. 19a-24a. The district court also dismissed SGK's infringement cause of action, stating that SGK's infringement assertions against Shell's polybutylene processes were not properly before the court, and dismissed Shell's noninfringement summary judgment motion as moot. App. 24a.

With respect to the issue raised by this petition, the district court reversed its tentative ruling to dismiss SGK's

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[1] On the invalidity issue, SGK only complained that the district court was applying the wrong legal standard. SGK also argued against dismissal of its infringement cause of action because it was asserting additional claims of the '698 patent (including, for the first time, claim 13) and because SGK had also properly asserted an infringement claim against Shell's polybutylene operations.

contract claim, ruling instead that federal law did not prohibit a licensor from seeking past royalties even though the relevant underlying patent claims were invalid. App. 25a-26a. This ruling thus mandated that a trial proceed on SGK's breach of contract cause of action even though the patent claims asserted by SGK against Shell's polypropylene processes had already been held to be invalid as a matter of law. App. 26a; 28a-30a.

Upon a joint motion, the district court entered a final judgment under Fed. R. Civ. P. 54(b) dismissing SGK's infringement cause of action. App. 31a. Concluding that the question of whether the invalidity of the relevant patent claims is a defense to an action seeking past royalties presented a controlling issue of law as to which there is a substantial ground for difference of opinion, the district court certified that issue for interlocutory appeal under 28 U.S.C. § 1292(b). App. 33a. The Federal Circuit then granted Shell's unopposed petition for leave to appeal the certified issue and consolidated it with SGK's appeal from the Rule 54(b) judgment. App. 35a-38a.

C. *The Federal Circuit Proceedings*

On its *de novo* review of the invalidity issue, the Federal Circuit agreed with the district court's holding that the disclosures of two earlier filed applications could not be combined to acquire an earlier filing date under 35 U.S.C. § 120, and that claims 1-6 and 14 were limited to the filing date of the '698 patent and were thus anticipated by the prior art Belgian patent. App. 5a-8a. On that basis, the Federal Circuit affirmed the district court's summary judgment of invalidity with respect to claims 1-6 and 14 of the '698 patent.[2] App. 8a.

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[2] The Federal Circuit also held that SGK had not expressly stated an intent to drop its assertion that claim 13 was infringed by Shell's polypropylene operations, and therefore remanded that issue because the district court did not provide an adequate reason for not ruling on that issue. App. 8a-9a. With respect to SGK's assertion that claims 7, 9-12, and 15 of the '698 patent were infringed by

Turning to the certified question of law that is the sole subject of this petition, the Federal Circuit began by stating that "[t]he record showed that Shell breached [its license with SGK] by producing polypropylene under the Seadrift process without either paying royalties or reporting the production as being outside of the license." App. 11a. It is clear, however, that such breach was only assumed by the Federal Circuit; otherwise, no remand would have been necessary on the contract issue.[3]

According to the Federal Circuit, if patent law and policy were set aside, the terms of the parties' license would obligate Shell to pay royalties on polypropylene produced in accordance with claim 1 of the '698 patent—regardless of the '698 patent's validity. App. 11a-12a. However, this Court's landmark decision in *Lear* had already settled that it was contract law, not federal patent policy, that was to be set aside when a licensor sought royalties under a license to an invalid patent. 395 U.S. at 670. In the Federal Circuit's view, this Court's elimination of licensee estoppel in *Lear* merely reflected "a past era of skepticism over intellectual property principles." App. 12a.

After giving lip service to *Lear*, the Federal Circuit then recited numerous of its own decisons that had distinguished *Lear* and unabashedly relied on them to avoid this Court's

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Shell's polybutylene operations, the Federal Circuit held that the district court abused its discretion by erroneously finding that SGK did not raise those claims until the joint pretrial order, and so remanded the alleged infringement by the polybutylene processes for further consideration. App. 10a-12a.

[3] As to a breach by failure to pay royalties on the Seadrift process, the Federal Circuit clarified that it was only "assuming that the Seadrift process infringes claim 1 of the '698 patent and thus fits within the terms of the license." App. 11a-12a. As to a breach by failure to report, it was later described by the court as "Shell's apparent breach of its duty to notify." App. 14a. In actuality, Shell's production from its Seadrift process was reported to SGK within 60 days of SGK's inquiry, so any alleged breach on that basis was fully cured as provided in paragraph VI(a) of the parties' 1974 license agreement. App. 54a.

teachings in *Lear* once again.[4] In particular, the court relied on its decision in *Diamond Scientific*, in which it reinstated the doctrine of assignor estoppel by distinguishing *Lear* as directed to validity challenges by licensees, rather than assignors. By so avoiding *Lear* in *Diamond Scientific*, and then using *Diamond Scientific* as controlling in this case, the Federal Circuit completed an improper end run around *Lear* that should be called back by this Court.

To the Federal Circuit, this case was just like *Diamond Scientific* because Shell's license had "produced significant benefits for the corporation and attested to the worth of the patent." App. 13a. The court then listed Shell's alleged "benefits" as being insulated from unlicensed competition, from investigations of infringement, and even from royalties until SGK's discovery of the Seadrift process. *Id.* Even though Shell did not seek or receive any protection of the license for its new Seadrift process, the Federal Circuit felt compelled by *Diamond Scientific*'s reasoning to conclude that it "must prevent the injustice of allowing Shell to exploit the protection of the contract and patent rights and then later to abandon conveniently its obligations under those same rights." App. 14a (citing 848 F.2d at 995 (other citation omitted)).

Finally, the Federal Circuit declared that it was "just as important" that Shell's apparent breach of its contractual duty to notify SGK of polypropylene produced outside of the license "is itself more likely to frustrate

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[4] App. 12a-13a (citing *Diamond Scientific Co. v. Ambico, Inc.*, 848 F.2d 1220 (Fed. Cir.) (upholding doctrine of assignor estoppel), *cert. dism'd*, 487 U.S. 1265 (1988); *Foster v. Hallco Mfg. Co.*, 947 F.2d 469 (Fed. Cir. 1991) (*Lear* did not bar enforcement of settlement agreement and consent decree); *Sun Studs, Inc. v. ATA Equip. Leasing, Inc.*, 872 F.2d 978, 991-93 (Fed. Cir. 1989) (*Lear* did not bar enforcement of contract promise to share royalties); *Hemstreet v. Spiegel, Inc.*, 851 F.2d 348, 350-51 (Fed. Cir. 1988) (*Lear* did not bar enforcement of settlement agreement to pay royalties even if patent later held invalid)).

federal patent policy than enforcement of the contract." App. 14a. Describing *Lear* as premised on the "full and free use of ideas in the public domain," *id.* (citing 395 U.S. at 674), the Federal Circuit apparently concluded that Shell should be punished for its silence on grounds that "Shell delayed a timely challenge to the validity of the '698 patent and postponed the public's full and free use of the invention of the '698 patent." App. 14a. The court of appeals did not explain how Shell's failure to invalidate the '698 patent sooner entitles SGK to even more money than it has already received under licenses to an invalid patent.

According to the Federal Circuit, Shell "enjoyed the protection of the license" under the '698 patent from 1987 until SGK learned of the Seadrift process and then, as soon as SGK discovered its existence, Shell "suddenly seeks the protection of the *Lear* policies it flaunted for many years." App. 14a. However, having paid royalties on its old processes for years, Shell flaunted nothing in *Lear* by declining to pay royalties on its new, noninfringeing process, particularly where Shell assumed the risk of having its license terminated for all of its processes, even those for which it had been willing to pay royalties. Moreover, *Lear*'s primary policy was to unmuzzle a licensee to challenge the validity of a licensed patent, and to allow the licensee to avoid paying accrued royalties if it was successful in invalidating the patent. 395 U.S. at 670.

Nevertheless, erroneously assuming that *Lear* reflected a belief by this Court that licensees making successful challenges to a patent's validity should only be excused from paying royalties accruing after notifying the licensor of their validity challenge (an arbitrary deadline and a holding found nowhere in *Lear*), the Federal Circuit announced the following rule:

> [A] licensee, such as Shell, cannot invoke the protection of the *Lear* doctrine until it (i) actually ceases

> payment of royalties, and (ii) provides notice to the licensor that the reason for ceasing payment of royalties is because it has deemed the relevant claims to be invalid.

App. 14a. Without analysis, the Federal Circuit found reassurance by noting that other circuits had arrived at the same conclusion. *See* App. *id.* (and cases cited).

On that basis, the Federal Circuit concluded that enforcing the parties' patent license agreement according to its specific terms would not frustrate federal patent policy—even though that ruling requires the district court and the parties to prolong their four-year litigation to resolve whether Shell's Seadrift process infringes now-invalidated claims of the '698 patent. App. 15a. Now, Shell has filed this timely petition seeking review of the Federal Circuit's incorrect and insupportable rule.

REASONS FOR GRANTING THE WRIT

This petition asks this Court to reject the Federal Circuit's rule of law announced in this case that a patent licensor may still recover damages for breach of contract from its licensee for unpaid royalties after the licensee proves that the licensed patent is invalid by clear and convincing evidence. Absent fraud, once the licensed patent is held invalid, the court should just leave the parties where it found them. Any royalties that have already been paid under the license should stay with the licensor. Conversely, the invalidity of the licensed patent should end any ability of the licensor to recover any additional or past due royalties under any legal theory. No other rule or result makes sense.

When Shell first began using its new Seadrift process, it was confident that the process was not covered by any claim in the '698 patent. By not paying royalties, Shell was exposed to a lawsuit despite having a license under the '698 patent. Had Shell not been a licensee and had SGK sued for patent infringement, Shell would have invalidated

the patent and paid nothing. However, the Federal Circuit has allowed the existence of a license agreement and Shell's alleged failure to notify SGK that its patent was believed to be invalid to provide SGK a legal loophole by which to deny Shell a complete defense of patent invalidity.

By refusing to treat the proven invalidity of a licensed patent as a complete defense to an action for breach of license, the Federal Circuit has authorized using state contract law to accomplish something that federal patent law does not allow: exacting royalties for a known process which is not protected by a valid patent. Blindly following a line of federal court decisions that purport to be upholding a rationale for this Court's decision in *Lear, Inc. v. Adkins,* 395 U.S. 653 (1969), that is nowhere to be found in that decision, the Federal Circuit held that a licensor may continue to litigate to recover royalties that accrued from the time that the licensee ceased paying full royalties until the licensee informed the licensor that the licensed patent was believed to be invalid.

The Federal Circuit's new rule flies in the face of this Court's clear precedent holding that a patentee cannot benefit from an invalid patent and that the public should have full and free use of all ideas in general circulation that are not protected by a valid patent. Yet, prior to making a validity challenge against the licensed patent, a licensee such as Shell has now been estopped by its license because the Federal Circuit has held that proving patent invalidity will not foreclose a contract claim for past royalties under the license. Because the Federal Circuit is not empowered to overrule or disregard *Lear,* this reversion to licensee estoppel is contrary to law and should be reversed by this Court.

Viewed merely as a matter of judicial economy and administration, holding a trial to determine whether an invalid patent has been infringed constitutes a huge and wholly unnecessary waste of public and private resources. As a matter of patent law, such a rule ignores that it is a

complete defense to a charge of infringement to be practicing the prior art, yet the Federal Circuit now has mandated that district courts construe invalid patent claims and decide issues of infringement without regard to the prior art that caused the asserted claims to be held invalid. As a matter of logic, there should be no difference between proving noninfringement and proving invalidity as a full defense to a claim for license royalties.

For the reasons set forth herein, Shell's petition should be granted and the Federal Circuit's decision to allow a patent licensor to recover any unpaid royalties for an invalid patent under a contract theory should be reversed.

I. ALLOWING ROYALTIES UNDER AN INVALID PATENT PURSUANT TO STATE CONTRACT LAW IS PREEMPTED BY FEDERAL PATENT LAW AND IS CONTRARY TO THE PRECEDENT OF THIS COURT

Any idea that is known but not patentable, or that is disclosed in a patent that is later invalidated, cannot be removed from the public domain under the guise of providing some form of alternative protection or remedy under state law. As shown below, repeated decisions from this Court leave no doubt.

In *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964), and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964), accused infringers were held to have violated state unfair competition laws by copying the patented device, even though the defendants had proved that the patents were invalid. This Court reversed both judgments, holding that state laws could not be used to frustrate federal patent policy by prohibiting the copying of products or processes not protected by valid patents. *See* 376 U.S. at 230-31.

> Just as a State cannot encroach upon the federal patent laws directly, it cannot, under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws.

Id. at 231-32. Thus, this Court's clear teaching in *Sears* and *Compco* is not limited to state unfair competition laws.

That was confirmed shortly thereafter by *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), which held that licenses requiring royalty payments after the licensed patents had expired were unlawful *per se* as an improper attempt to recover on a patent after the claimed invention has entered the public domain. *Id.* at 32-33. Clearly, a patent license cannot be enforced with respect to any time period in which the licensed patent has no valid or enforceable scope. If *Brulotte* bars using state contract law to allow royalties for an expired patent, the Federal Circuit must have erred by allowing SGK to pursue royalties allegedly due under invalid patent claims that never should have been issued at all.

Most importantly, in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), this Court reiterated its consistent view that federal patent policy outweighs enforcement of state contract law by abrogating the doctrine of licensee estoppel, under which courts had held licensees contractually estopped from using invalidity of the licensed patent as a defense in a suit for royalties due under the license. Recognizing "the strong federal policy favoring free competition in ideas which do not merit patent protection," 395 U.S. at 656, this Court reaffirmed a series of its prior decisions that had already shown that challenges to validity will defeat contractual attempts to insulate patents from attack or to protect a licensor's right to continued royalties.[5]

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[5] *See, e.g., Pope Mfg. Co. v. Gormully*, 144 U.S. 224, 234 (1892) (refusing to grant an injunction to enforce a licensee's promise never to contest the validity of the underlying patent); *Westinghouse Elec. & Mfg. Co. v. Formica Insulation Co.*, 266 U.S. 342 (1924) (allowing assignor to introduce prior art evidence to narrow the scope of the assigned claims); *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249 (1945) (patent assignor could avoid estoppel by showing it had copied an expired patent in the prior art); *Sola Elec. Co. v. Jefferson Elec. Co.*, 317 U.S. 173 (1942) (licensee under

Recognizing a conflict between contract law forbidding a purchaser to repudiate his promises upon becoming dissatisfied with the bargain and federal law requiring that all ideas be dedicated to the common good unless protected by a valid patent, the Court in *Lear* admitted that prior attempts to balance the two competing policies had been a failure. 395 U.S. at 668.

> [Because patents issue from an *ex parte* proceeding], it does not seem to us to be unfair to require a patentee to defend the Patent Office's judgment when his licensee places the question in issue, especially since the licensor's case is buttressed by the presumption of validity which attaches to his patent. Thus, although licensee estoppel may be consistent with the letter of contractual doctrine, we cannot say that it is compelled by the spirit of contract law, which seeks to balance the claims of promisor and promisee in accord with the requirements of good faith.
>
> Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. . . . We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest.

Id. at 670. Thus, *Lear* formally authorized licensees to challenge the validity of licensed patents and, if successful, to use such invalidity as a complete defense if the patentee-licensor sues for contract damages.

Any doubt as to the proper meaning of *Lear* should have been eliminated by *Blonder-Tongue Lab., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313 (1971), in which this Court held that any adjudication of patent invalidity estops the patent owner from asserting that same patent against others. In that case, *Lear* was correctly characterized as follows:

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contract with illegal price-fixing clause was allowed to prove invalidity to avoid paying royalties).

> *Lear* permits an accused infringer to accept a license, pay royalties for a time, and cease paying when financially able to litigate validity, secure in the knowledge that invalidity may be urged when the patentee-licensor sues for unpaid royalties.

402 U.S. at 346. Nothing in *Lear* or *Blonder-Tongue* holds that a licensee is required to give notice or take any additional steps that could lead to litigation beyond withholding royalty payments allegedly due under the license.

The facts of *Lear* were somewhat unusual in that Lear had agreed to the license before the patent issued and thus received early disclosure of the secret application. During prosecution, Lear informed Adkins that the claimed idea was not patentable over the prior art, and that the company would pay no further royalties. 395 U.S. at 659. No post-issuance royalties were ever paid. In holding that Lear was not estopped to contest validity, this Court expressly held that "Lear must be permitted to avoid the payment of all royalties accruing after Adkins' 1960 patent issued if Lear can prove patent invalidity." [6] 395 U.S. at 674.

This Court clearly did not envision that any post-issuance royalties could be recovered if the patent in *Lear* was held invalid on remand. Moreover, the Court rejected an attempt to enforce the license provision that royalties were to be paid until such time as the patent was held invalid. 395 U.S. at 673.

> The decisive question is whether the overriding federal policies would be significantly frustrated if licensees could be required to continue to pay royalties during the time they are challenging patent validity in the courts.

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[6] This Court did not decide whether Lear was contractually obligated to pay royalties until the patent issued in exchange for the early disclosure of the pending application. Instead, it remanded that issue to the state court to allow it to "reconcile the competing demands of patent and contract law in a way which would not warrant further review in this Court." 395 U.S. at 675.

> It seems to us that such a requirement would be inconsistent with the aims of federal patent policy. . . . If a licensee has reason to believe that he will replace a patented idea with a new one in the near future, he will have little incentive to initiate lengthy court proceedings, unless he is *freed from liability at least from the time he refuses to pay the contractual royalties.* Lastly, enforcing this contractual provision would undermine the full and free use of ideas in the public domain.

Id. at 673-74 (emphasis added). If an express provision to pay royalties until the patent was declared invalid was not enforced by this Court in *Lear*, the Federal Circuit had no legal basis for allowing an alleged breach of a contract provision merely requiring notice of unlicensed production to justify recovering past due royalties on the invalid claims of the '698 patent.

Because some form of breach will exist whenever a licensee relies on *Lear* to challenge a licensed patent, the mere existence of a breach cannot justify allowing contract law to enable a licensor to seek additional past royalties for a patent that has been held to be invalid. Such a result is clearly preempted by federal patent law and policy as repeatedly announced by this Court. Without question, *Lear* confirms that invalidity of a licensed patent is a complete defense to a contract claim for any royalties that accrued under the license after the licensed patent issued. On its face, the Federal Circuit's contrary rule violates *Lear*, is clearly wrong and should be summarily reversed.

II. THE FEDERAL CIRCUIT VIOLATED *LEAR* BY IGNORING ITS OWN HOLDING THAT THE LICENSED PATENT IS INVALID

As evidenced by the Federal Circuit's admitted efforts to limit or distinguish *Lear* at every opportunity, *see supra* note 4, the Federal Circuit's analysis is this case has again been tainted by its automatic assumption that all patents (even invalid ones) promote the progress of science and

useful arts. *See* U.S. Const., art. I, § 8. To the extent that there is any legitimacy to that court's criticism of *Lear* as reflecting "a past era of skepticism over intellectual property principles," App. 12a, the Federal Circuit is equally susceptible to criticism for its tireless promotion of intellectual property rights in disregard of this Court's precedent.

In this case, the relevant claims of the '698 patent were proven to be invalid, meaning that their existence since 1978 was actually an impediment to progress in science and the useful arts. By failing to give legal effect to its own conclusion that those claims should never have issued, the Federal Circuit has improperly elevated state contract law over federal patent law in a manner that authorizes an undeserving patent owner to pursue even more royalties under a license to an invalid patent. Viewed in that light, as it must be, none of the justifications for that result offered by the Federal Circuit have any merit.

According to the Federal Circuit, contract law governed enforcement of the license because nothing in the parties' agreement made payment of royalties contingent upon the validity of the '698 patent. App. 11a. If the outcome were truly dictated solely by contract law, the invalidity of the licensed patent would not bar a licensor from recovering royalties for the entire patent term anyway. However, even SGK concedes that a licensee can use invalidity as a defense to a licensor's demand for past royalties after the patent is challenged.

In essence, the legal question presented by this petiiton is whether there are *any* circumstances in which invalidity under federal patent law will not trump state contract law in a suit for license royalties. As a matter of constitutional law, the answer can only be "no." Yet inexplicably, the Federal Circuit reached the opposite conclusion, claiming to have been unable to discern a "significant" conflict between state contract and federal patent law in allowing a licensor to recover "pre-challenge" royalties accruing under a license to an invalid patent. App. 13a. For

whatever reason, it is apparent that the Federal Circuit was really not looking very hard.

A. The Federal Circuit's Reasons For Allowing State Contract Law To Override Federal Patent Law Are Baseless

In explaining its rationale for abolishing licensee estoppel, this Court in *Lear* had cited cases criticizing or limiting assignor estoppel as well. *See* 395 U.S. at 663-67. When the Federal Circuit later used its own initiative to resurrect the assignor estoppel doctrine in *Diamond Scientific Co. v. Ambico, Inc.*, 848 F.2d 1220 (Fed. Cir.), *cert. dism'd*, 487 U.S. 1265 (1988), that court carefully sidestepped *Lear* by drawing a distinction between an assignor and a licensee:

> The public policy favoring allowing a licensee to contest the validity of the patent is not present in the assignment situation. Unlike the licensee, who, without *Lear*, might be forced to continue to pay for a potentially invalid patent, the assignor who would challenge the patent has already been fully paid for the patent rights.

848 F.2d at 1224. In this case, however, the Federal Circuit conveniently ignored that distinction in order to legitimize a contract suit for royalties under a license to an invalid patent in violation of *Lear*. Such conspicuous bootstrapping by a lower court as a means to get around a controlling decision of this Court should not be condoned.

Even if it is assumed that *Diamond Scientific* was factually distinguishable from *Lear*, the Federal Circuit's reliance on *Diamond Scientific*'s rationale as a basis to avoid *Lear* in a license case is wholly improper. Moreover, the Federal Circuit's attempts to equate this case with *Diamond Scientific* are wholly inapt. In contrast to the patent in *Diamond Scientific*, the relevant '698 patent claims have already been litigated, appealed, and held invalid. Nevertheless, the Federal Circuit viewed the two cases as in-

distinguishable because, like the assignor in *Diamond Scientific*, Shell had supposedly also executed a contract "which produced significant benefits for the corporation and attested to the worth of the patent." App. 13a.

It is wrong to assume that a licensee has attested to the worth of the licensed patent or even believes that the patent is valid. A party may take a license to avoid litigation, to preserve business relationships, to minimize uncertainty, or for many other reasons unrelated to the "worth" of the licensed patent. Here, the Federal Circuit did not even try to explain how paying millions for an unnecessary license under an invalid patent "produced a significant benefit" to Shell (rather than an undeserved windfall to SGK). Similarly, the court did not try to reconcile its reliance on the '698 patent's alleged worth with the *de novo* conclusion a few paragraphs earlier that the relevant claims were invalid and thus worthless as a matter of law.

Compounding its analytical errors, the Federal Circuit characterized Shell as having received the "benefits" of producing polypropylene insulated from unlicensed competition, from investigations of infringement, and even from royalties. App. 13a. As confirmed by its own invalidity holding, those alleged "benefits" were either disadvantages or nonexistent. Indeed, the fundamental flaw of the Federal Circuit's legal analysis is that it assumes that the '698 patent is still valid. While that may have been presumed when the license was signed (*see* 35 U.S.C. § 282), it is clear error for the Federal Circuit to perpetuate that overcome presumption to justify a contract claim for post-invalidity royalties.

Far from benefitting from being insulated from unlicensed competition, Shell was clearly disadvantaged by having to compete against those polypropylene companies that never paid any royalties to SGK for the use of processes covered by the '698 patent. As to being free from investigations of infringement, that "benefit" clearly ceased when Shell decided not to pay additional royalties to SGK.

At that point, Shell and its Seadrift process became subject to SGK's investigations, to allegations of breach, and later to the intrusiveness of discovery when SGK terminated the license and filed suit. In fact, litigation did ensue so such freedom from suit was temporary. Because any such freedom from suit attributable to the license only exists while all royalties are being paid, Shell paid in full for whatever benefit it may have received in that regard from its license.

Finally, the Federal Circuit's claim that Shell received a benefit under the license of being free from royalties until SGK discovered the Seadrift process is nonsensical. To the extent that is a benefit at all, it stemmed not from the license, but from Shell's own conclusion that the Seadrift process was outside of the license. Moreover, any such "benefit" was again only temporary because Shell's exposure for the unpaid royalties did not cease upon nonpayment—but should have when Shell established that the relevant claims of the licensed patent were invalid.

By its own admission, the Federal Circuit was acting to prevent the "injustice" of allowing Shell to disclaim the illusory benefits allegedly received under its license by later abrogating the agreement and avoiding all liability for breach. App. 14a. That is not an injustice. The real injustice is allowing SGK to pursue additional royalties under invalid patent claims to subject matter disclosed in the prior art. The greatest injustice is that the Federal Circuit could only reach that result by ignoring *Lear*.

For the period prior to Shell's challenge to the '698 patent, the Federal Circuit has ruled that the proven invalidity of the relevant patent claims has no effect on SGK's cause of action for past royalties under the license. The result for that period is exactly the same as when the doctrine of licensee estoppel still applied. Thus, despite *Lear*, Shell has effectively been estopped by its contract. Whether viewed as a direct violation of this Court's elimination of licensee estoppel in *Lear* or merely as an untenable extension of *Diamond Scientific*'s narrow

rationale beyond any legitimate scope, the Federal Circuit's rule announced in this case should be reviewed and reversed by this Court.

B. Controlling Federal Patent Law Prevents A Contract Remedy Based On Whether Invalid Claims Are Infringed

This Court should not tolerate a rule of law that requires expending additional judicial resources on rewarding a licensor for rights under patent claims that the courts have already held to be invalid. If the Federal Circuit's rule is upheld, the district court and the parties will be required to hold a trial on whether Shell's Seadrift process falls within the scope of claim 1 of the '698 patent, even though the Federal Circuit has agreed that the asserted claim has no valid scope. The whole premise of such an inquiry is too fanciful to be allowed.

In patent cases, infringement and validity issues are undeniably intertwined. *See, e.g., Markman v. Westview Instr., Inc.*, 52 F.3d 967, 976 n.7 (Fed. Cir. 1995) (patent claims must be interpreted the same for validity and infringement), *aff'd*, 116 S.Ct. 1384 (1996). In an infringement trial, Shell would be free to rely on prior art to narrow the scope of the asserted claim. *See, e.g., Westinghouse*, 266 U.S. at 350-51. Yet, in the trial mandated by the Federal Circuit, Shell apparently is foreclosed from relying on the best prior art, *i.e.*, the Belgian Patent, that narrows the claim scope to nothing.

From the outset, SGK has urged interpretations of the '698 patent lacking any support in the claims, the specification, or the prosecution history. Now, the Federal Circuit has affirmed that the asserted claims cannot be interpreted to be valid in light of the prior art. App. 5a-8a. At the same time, the Federal Circuit has essentially freed SGK to continue to urge its claim interpretations unrestricted by the closest prior art because, unlike the usual patent case, SGK no longer has to fear its claims being held invalid. That cannot be the law.

If a patent license can be enforced despite the licensed patent being invalid, there is no principled way to bar enforcement of similar contracts over invalid, fraudulent, or illusory rights. Even confining one's fears to the patent arena, licenses could be enforced by licensors that do not actually own the licensed patent (at least until the licensee challenged ownership). Licenses could be enforced covering patents procured through inequitable conduct or misused by their owners (at least until the licensee challenged the enforceability of the patent). Such results are ridiculous, and illustrate how the Federal Circuit erred in this case in making an exception for invalidity.

While it may be possible to read the words of invalidated claims on another's device or process, for purposes of liability, that is not patent infringement. In that sense, an invalid patent simply cannot be infringed. Moreover, it does not matter why the licensed patent has been invalidated. Whether the licensed patent is invalid as anticipated, obvious, not enabled, or under any other statutory provision, contract law cannot be allowed to supply a basis for liability that is prohibited under the patent law.

C. Invalidity And Noninfringement Should Be Equal Defenses To A Claim For Breach Of A Patent License

Despite rejecting invalidity of the asserted claims as a complete defense to liability for royalties under the '698 patent, the Federal Circuit clearly contemplates that Shell can avoid such liability if the Seadrift process does not infringe claim 1. App. 15a. However, no valid distinction should exist between the effect of proving invalidity or noninfringement as a defense to contract royalties. Indeed, Shell provides a greater public benefit by invalidating the patent claims than by proving only that Shell does not infringe. Yet, if noninfringement is a complete defense to a royalty claim and invalidity is not, licensees will surely focus first on proving the former (with its lower

burden of proof), causing the undesirable result of allowing more invalid patents to remain intact.

In practical effect, the Federal Circuit's ruling penalizes Shell for agreeing to a license, for paying royalties on its older polypropylene processes, and then assuming the risk that additional payments for the new Seadrift process were not needed because that process was not covered by the '698 patent. When SGK terminated Shell's license in 1993, thus exposing Shell's older polypropylene processes to possible infringement liability, Shell maintained its position that the Seadrift process was not covered, but also pursued other available defenses to SGK's suit, ultimately exposing the invalidity of the relevant patent claims.

Regardless of why a patent licensee witholds royalties allegedly owed under a license, invalidity of the licensed patent must be a complete defense to a claim for unpaid royalties. It cannot be the law that it makes a difference in defeating liability under a license whether Shell prevails first on its invalidity defense or its noninfringement defense.

III. OTHER FEDERAL COURTS ERRONEOUSLY PROMOTE AN ILLUSORY POLICY OF EARLY PATENT CHALLENGES THAT IS NOWHERE IN *LEAR*

Admittedly, many post-*Lear* decisions have ruled that a licensee cannot use invalidity as a defense to a claim for past due royalty payments that accrued before the licensee notified the licensor that the licensed patent was believed to be invalid. However, not only is this rule inconsistent with this Court's precedent, but it imposes an arbitrary burden on the licensee that does not even support the illusory policy favoring early challenges to validity on which it is purportedly premised.

The post-*Lear* case most responsible for the creation of this "equitable" rule is *PPG Indus., Inc. v. Westwood Chem., Inc.*, 530 F.2d 700 (6th Cir.), *cert. denied*, 429 U.S. 824 (1976). In that case, the licensee, PPG, ceased

paying royalties because it was dissatisfied with the licensor's efforts to enforce the licensed patent against infringers. At the same time, PPG was actively assisting the licensor in defending the licensed patent's validity in lawsuits with others. *Id.* at 703. When the licensed patent was later invalidated in one of those suits, PPG sought a declaratory judgment that its license agreement was unenforceable, and the patentee counterclaimed for the royalties withheld by PPG prior to filing the declaratory judgment action. *Id.* at 703-04.

Apparently troubled by allowing a licensee that was striving to uphold the validity of the licensed patent to escape liability for its own past due royalties when another party succeeded in invalidating the patent, the Sixth Circuit held that PPG had to pay the past royalties up until the time it brought suit against the licensor. *Id.* at 707. In supporting its result, the Sixth Circuit in *PPG* manufactured a misinterpretation of *Lear* that became a blindly-accepted but clearly erroneous statement of federal patent policy with respect to patent license disputes.

Without citation, the Sixth Circuit declared in *PPG* that "[u]nder *Lear* a licensee has the right to cease paying royalties at any time *for the purpose of prompting an early adjudication of the invalidity of the patent.*" *Id.* at 704 (emphasis added). However, *Lear* stated no such thing. In fact, *Lear* did not even mention the "early adjudication" of patent invalidity as a policy consideration at all. Instead, *Lear* recognized that a licensee "will have little incentive to initiate lengthy court proceedings, unless he is freed from liability at least from the time that he refuses to pay the contractual royalties." 395 U.S. at 673-74.

It is not surprising that promoting early adjudication of patent invalidity was never discussed in *Lear* as being this Court's motivation for eliminating licensee estoppel. In nearly all cases, a licensee (or potential licensee) has an incentive to bring a challenge to a licensed patent as soon as it is aware of grounds to do so because a success-

ful challenge will terminate any obligation to pay royalties or remove any fear of an infringement suit. Thus, by ending licensee estoppel, early adjudication of invalid patents is a natural effect of *Lear*, not its cause.

Simply put, the date upon which the licensor is first notified by the licensee that it believes the patent is invalid is an arbitrary fiction.[7] Upon failing to pay full royalties, a licensee becomes subject to suit by the licensor. If the patent is later shown to be valid and infringed, the licensee will be liable for all royalties due and consequential damages (if the license has not been terminated) or will be liable for infringement damages and other remedies, including an injunction (if the license has been terminated). In light of those significant risks if it loses, the licensee should achieve a complete victory whether the patent is shown to be invalid or not infringed.

Moreover, requiring a licensee to express its belief in invalidity does little, if anything, to initiate court challenges to validity any earlier than they would otherwise arise. Once a licensee withholds any royalties, the specter of litigation arises regardless of whether the licensee also expresses its belief of invalidity as a reason. Moreover, the specific reason for the missing royalties should not matter. If a licensee withholds payments in dispute over the scope of the patent claims, the licensor is just as likely to bring a lawsuit, and in most cases, the validity of the patent will end up being contested as well.

Nevertheless, upon pronouncing early adjudication of invalidity as being *Lear*'s primary objective, the Sixth Circuit in *PPG* then used that policy as a basis for announcing that "something more than mere non-payment is required to encourage an early adjudication of invalid-

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[7] If the Federal Circuit's rule is accepted, licensees will simply inform the licensor that the license is being signed merely to avoid litigation or remove uncertainty even though the licensee believes the patent is invalid. Thus, the rule will likely impede the resolution of license disputes by causing premature litigation, protracted negotiations, and excessive costs with little corresponding benefit.

ity." 530 F.2d at 706 (quotation omitted). At best, the unusual facts in that case led to a holding not generally applicable to all patent licenses or disputes over unpaid royalties. In any event, *PPG* spawned an ill-advised and arbitrary rule neither mandated by this Court in *Lear* nor consistent with the federal policies on which *Lear* was truly based.

IV. THIS PETITION SHOULD BE GRANTED TO CORRECT THE CONFLICT AND CONFUSION CREATED IN THE VARIOUS CIRCUITS SINCE *LEAR*

Despite having different facts than in *PPG*, a number of federal courts in later cases just accepted the Sixth Circuit's proclamation that "early adjudication of patent invalidity" was the primary motivation for *Lear* and assumed—without analysis or question—that the Sixth Circuit's "challenge rule" promoted that policy and accurately interpreted *Lear*. In *American Sterilizer Co. v. Sybron Corp.*, 614 F.2d 890, 897 (3d Cir.), *cert. denied*, 449 U.S. 825 (1980), the Third Circuit conceded that *Lear* stated that a licensee's royalty obligation was suspended when royalty payments were halted, yet followed *PPG* anyway. Indeed, *PPG*'s recasting of *Lear* can be found in every federal decision relied on by SGK and cited by the lower courts in this case.[8]

Now, twenty years later, the string of courts citing *PPG*'s error has culminated in the Federal Circuit's misguided decision to adopt that rule as its own precedent in this case. Clearly, the Federal Circuit was concerned that Shell had not informed SGK of the polypropylene made using the Seadrift process until asked. App. 14a. However, any breach in that regard was cured in accordance

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[8] *See* App. 14a-15a & App. 25a (citing *Rite-Nail Packaging Corp. v. Berryfast, Inc.*, 706 F.2d 933, 936-37 (9th Cir. 1983); *Hull v. Brunswick Corp.*, 704 F.2d 1195, 1203-04 (10th Cir. 1983); *Bristol Locknut Co. v. SPS Technologies, Inc.*, 677 F.2d 1277, 1283 & n.7 (9th Cir. 1982); *see also Bahamas Paper Co. v. Imperial Packaging Corp.*, 58 F.R.D. 355, 356-57 (S.D.N.Y. 1973); *Eastman Kodak Co. v. GAF Corp.*, 419 N.Y.S.2d 372, 373 (N.Y. Sup. Ct. 1979).

with the license. *See supra* note 3. Moreover, SGK continued to receive royalties from its licensees during the interim, so SGK could hardly have been harmed because Shell did not prove the invalidity of the '698 patent even sooner. Finally, even an uncured breach cannot allow contract law to violate *Lear* and nullify the legal effect of proving a licensed patent to be invalid.

Unlike the Third, Sixth, Ninth, and Tenth Circuits, courts in the Seventh Circuit have upheld the withholding of royalty payments as sufficient to allow proof of invalidity to be a complete defense to contract damages, even in the absence of any prior notice of a challenge to validity. For example, in *Kraly v. Nat'l. Distillers and Chemical Corp.*, 502 F.2d 1366, 1372 (7th Cir. 1974), the court only required royalties to be paid for the period when the licensee was marking its product with the number of the licensed patent, and made no mention of a prior challenge to validity as setting the royalty cut-off date.

A Seventh Circuit district court case, *Crane Co. v. Aeroquip Corp.*, 356 F.Supp. 733 (N.D. Ill. 1973), is factually quite similar to this one. Like Shell, the licensee in *Crane* designed a new device that it believed fell outside the scope of the licensed patent, but continued to pay royalties on its original device. *Id.* at 740. The licensee did not tell the licensor of the new product until the licensor inquired. *Id.* at 735. Rejecting the licensor's attempt to be paid all royalties accruing before its complaint for breach of contract, the court refused to read *Lear* so narrowly as to require actual litigation before a licensee's royalty obligation ceases because such a rule would allow the licensor to wait until the patent expired and then sue for all royalties not paid before the litigation. *Id.* at 740.

In so doing, the district court in *Crane* recognized that invalidity was a complete defense to a claim for unpaid royalties, but reserved decision on whether the licensee would have to pay for the period that it had marked the

new product with the patent number if the patent were held valid. *Id.* at 740-41. Decided before *PPG* and thus not influenced by the Sixth Circuit's error, the court in *Crane* properly cited and relied on *Lear* and *Blonder-Tongue*. Notably, there is no requirement in *Crane* that the licensee must have first informed the licensor that it considered the patent to be invalid.

Because the Federal Circuit is now the federal court of appeals with exclusive jurisdiction over appeals arising under the patent laws, the Federal Circuit's blind adherence to *PPG* and its progeny has now magnified the importance of an already wasteful and erroneous rule of law. To the extent that the Federal Circuit's views on patent-related issues will be given added weight by other federal courts, its serious mistake should be corrected by this Court.[9] Moreover, the importance of resolving the conflicts among the various circuit courts on the important legal question presented by this petition has not been diminished by the existence of the Federal Circuit.

Disputes over patent licenses are not confined only to cases arising under the patent laws.[10] Because of the ever-increasing importance of patents and other intellectual property in the global economy, high-stakes patent license

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[9] This Court has granted certiorari in other cases arising from the Federal Circuit where important federal interests or rules of laws were at issue. *See, e.g., Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 117 S. Ct. 1040 (1997) (clarifying judicial-created doctrine of equivalents); *Cardinal Chem. Co. v. Morton Int'l, Inc.*, 508 U.S. 83 (1993) (reviewing Federal Circuit's practice of vacating invalidity holdings upon affirming finding of non-infringement).

[10] *See, e.g., In re Innotron Diagnostics*, 800 F.2d 1077, 1080 n.4 (Fed. Cir. 1986) (Federal Circuit "will not have jurisdiction over an appeal from a district court judgment where the district court's jurisdiction was based solely on diversity, even though the case may involve interpretation, viability, and application of a patent license contract, and those determinations may require consideration of defenses raising patent validity and infringement issues" (and cases cited)).

disputes will continue to confront all federal appellate courts in diversity cases. Thus, wholly apart from the Federal Circuit's adoption of the wrong law as its own precedent, this case presents a perfect opportunity to resolve the confusion between the circuits over the true effect of *Lear* in this situation.

More importantly, the real conflict in this situation is between this Court's precedent in *Lear* and the post-*PPG* decisions of a majority of federal courts, most recently the Federal Circuit, that have disregarded that precedent to redirect federal patent policy as they prefer. Not only are they bound by this Court's precedent, but they have adopted the wrong rule of law. As embodied by *Lear*, the applicable rule in all federal courts should remain that proof of invalidity of a licensed patent ends all liability for unpaid royalties under a license to that patent, and eliminates the need for any further proceedings in the federal courts. Once a licensed patent is held invalid, there should be nothing left to litigate.

CONCLUSION

For each of the above reasons, Shell's petition for writ of certiorari should be granted.

Respectfully submitted,

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